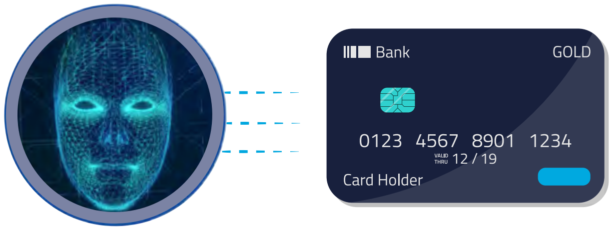
USE CASE: PAYMENT DEFAULT SCHEME

OVERVIEW

A common use of synthetic identities in the payments industry is a payment default scheme, which involves obtaining goods, cash or services with no intent to repay. This could take the form of a large, one-time purchase or a series of purchases that often total a substantial amount.



Fraudsters can use a few different strategies when enacting payment default schemes. One is to secure a loan or line of credit with a synthetic identity, then make a transaction(s) quickly without making any payments on those purchases. The fraudster essentially is stealing whatever is purchased or the amount of cash withdrawn, which is often referred to as "farming" the account. Another approach – and one that can be more lucrative for fraudsters – is to spend time building a strong credit profile for the synthetic in a "bust-out" fraud scheme. Multiple credit accounts are opened and kept in good standing with on-time and in-full payments. This positive payment history typically results in a credit line increase for each account. The fraudster can grow these lines for months or, often, years before busting out. Once the credit lines are at a satisfactory level, the fraudster uses all the available credit (typically in a short amount of time) and does not make any future payments on the accounts. A bust-out commonly involves regular credit cards, but also can be carried out with a closed-loop store credit, home equity line of credit (HELOC), installment loan or any other form of revolving credit.

USE CASE: AUTO LOAN FOR A LUXURY CAR

A 36-year-old man had his eye on a certain brand of luxury sports coupe. Knowing he will never have enough money to buy the car, he resorted to exploring illegal or fraudulent ways of securing that specific car. He begins searching the dark web and learns he can apply for and secure a loan using someone else's Social Security number (SSN) and then simply not make any payments, essentially getting the car for free.

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With the help of an experienced fraudster he met on the dark web, he began searching for SSNs for sale belonging to males and were associated with a positive credit history and significant earnings, and therefore, would be eligible for large credit lines.

He purchased three SSNs matching those criteria for $5 apiece.

Again, with the help of the experienced fraudster, he began to create a new identity for each SSN. To avoid detection, he used the same names and birthdates as the legitimate SSN owners but created new email addresses and set up different P.O. boxes for each.

He then used that information to open three mobile phone accounts with three different carriers, one for each identity.

As a result, he has created three new full-fledged synthetic identities.

He applied for various auto loans using each of the synthetic identities to see which one could secure the largest loan amount.

He was pleased to be offered several loans and moved forward with the largest loan offer of $150,000. This loan is offered by a local luxury auto retailer.

He ordered a fake driver's license from the dark web with the information associated with the synthetic identity to use when visiting the dealership.

He selected a luxury sports coupe, signed the required paperwork, and drove off the lot in his dream car. He never made a payment on the car.

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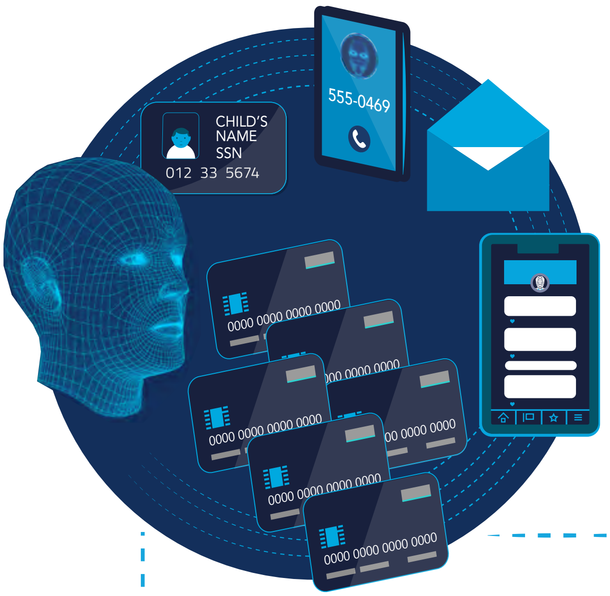

USE CASE: MAXING OUT MULTIPLE CREDIT CARDS

A repeat fraudster planned to move to San Diego in approximately five years to purchase a new home, lavish décor and designer wardrobe. To keep this activity separate from her other fraudulent acts, she decided to create a new synthetic identity to cultivate a positive credit history, open multiple accounts, and then bust out on all of them once she was ready to make these purchases for her new life in California.

She procured a child's SSN on the dark web. With reasonable assurance this SSN is not yet associated with an active credit file, she used it to create a new synthetic identity.

She made up a name using a combination of her best friend's first name and her favorite actress' last name (Shanna Roberts) and used a birthdate that aged the identity in her early 20s to make it believable that there was no active credit file.

She then created contact information for Shanna Roberts, including an email address, P.O. box and new mobile phone number.

To make the identity seem more believable, she used a real address to set up utilities and creates social media accounts for "Shanna" as a single young woman in her 20s who is a CIO at a fictitious company, avid triathlete, loves nature photography and travel, and often posts pictures of her more picturesque travel destinations.

She opened three traditional credit cards and four store credit cards over a year, each with a modest credit line. Most are approximately $5,000.

She also set up a bank account for "Shanna" and deposited funds as needed to make her monthly credit card payments.

Over the next four years, she built up a history of good credit behavior for each of these credit lines, with timely payments and low utilization. As a result, these credit lines continued to increase. After four years of positive payment history, most of the credit lines were around $35,000.

When she was ready to move to California, she proceeded to execute the "bust-out" phase of her plan. Within the course of two weeks, she maxed out each of the cards buying furniture and clothes, but then quickly submitted an online check for each account.

She initially timed the submission of each check to ensure there was enough money in the bank account to authorize the payment (therefore freeing up the credit line once again), but then withdrew all the money to intentionally bounce each check.

During the few days it took for each online check to clear and return over the course of those two weeks, she maxed out the cards again, essentially doubling her available purchasing power to $70,000 per account or $350,000 total. She did not make any additional payments.

The child whose SSN was used found out 13 years later that his SSN was associated with these credit losses. He first must prove his rightful ownership of the SSN and then work to disassociate all charges and negative credit history. It takes him three years to straighten everything out and begin building his credit profile with a clean slate.

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AFTERMATH

Default payment schemes can be extremely rewarding for fraudsters, whether it's a single upfront purchase with no repayment or a plan cultivated over time to increase the ultimate payout. This activity often goes undetected due to the limited identity verification that occurs at account opening, as well as minimal authentication on individual transactions. Additionally, for bust-out schemes, the fraudster's initial payment behavior indicates a reliable, upstanding customer, as he or she makes their monthly payments on time until the actual bust-out occurs. These schemes can result in significant financial losses for financial institutions and also can be detrimental to those rightfully owing the SSNs used in the synthetic identities. To minimize losses, it is important to identify the synthetic before it is on your books and deter the fraudster from causing detrimental damage to the true owner of the personal information.